Money

Financial Advice You Can Trust How to find the best pros -- and avoid the jokers -- when you need a broker, planner, insurance or real estate agent, or accountant.

By Andrea Rock
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(MONEY Magazine) – It was the ambience, and Venita Van Caspel's charm, that greased the sale. "Venita always wore such beautiful suede dresses," recalls Christine Carr, one of the prospective investors who were gathered to hear a pitch from the Houston financial planner, best-selling personal-finance author and ubiquitous television guest. "She had charisma," Carr adds. "And her beautiful offices on a top floor of a tower building in the Houston Galleria spoke of fabulous success." The deal sounded good too. An organizer of the real estate limited partnership Van Caspel was promoting "gave a presentation showing how we'd earn outstanding returns," says Carr. "Then Venita told us to hurry and get our checks in because these units would go fast." Today, Carr and her noted physician husband David wish they hadn't moved so quickly to plow more than $90,000 into the project. Their stake may now be worthless. And the Carrs and other investors complain angrily that certain potentially salient facts were missing from the prospectus -- such as that Van Caspel owned a 31.5% share of the land the partnership bought. "We trusted Venita to give us objective advice," says Carr. "Instead she betrayed us." Van Caspel, who is still occasionally quoted in the national financial press (including MONEY last July), counters that she didn't know the information was left out. "The lawyer who drafted the offering memorandum told me later he omitted those details because the document was so fat already," she says. "I lost money right along with the other investors and feel that I'm the one being abused." Regardless of how the dispute is resolved, it is symptomatic of a deep crisis of confidence now shaking the financial services industry in America. Opinion polls, complaint records and court dockets all suggest that most of us no longer trust these professionals to give competent, honest advice. More than two-thirds of Americans think their advisers put self-interest ahead of client interest, according to the MONEY/ABC News poll. And a recent Wall Street Journal survey found that insurance companies, banks and brokerage houses are among the top five most mistrusted institutions in the nation, out of a list of 22. Why the loss of faith? To some extent, it's a lingering aftershock of the 1987 stock market crash compounded by uneasiness over the recent commodities fraud headlines and the continuing savings and loan mess. It may also reflect a growing financial sophistication that leads people to be more mindful of their money and to expect more from those who handle it. Beyond all that, there's also evidence of a breakdown in both ethics and service by the major financial professions, of which much publicized crimes like insider trading and commodities market profit skimming are only the most visible symptoms. The Securities and Exchange Commission, for example, recorded more than twice as many complaints about investment advisers last year as it had just five years earlier. Formal protests about broker-dealers increased nearly 60%. And state disciplinary actions against financial planners last year were up more than 2 1/2 times over their 1985 level, according to a 30-state survey by the North American Securities Administrators Association; that group also calculated that fraud and abuse by planners had bilked customers out of at least $400 million from 1986 to 1988. Says Stuart Goldberg, a New York City securities attorney: "It's a bigger mess out there than I've seen in my 20 years in this field." This is not to say that every person who markets his financial know-how is a crook. Far from it. But just as finding a good

doctor or lawyer can take time, it often requires effort on your part to locate the right people to handle your financial affairs. Below, we offer some general thoughts on how to find them. Then, in the series of boxes beginning on this page, we add specific suggestions for what to look for in a planner, money manager, stockbroker, insurance or real estate agent and accountant. Many people are discouraged from even trying to find trustworthy financial advice because they think it's impossible -- a charge Goldberg argues is too often true. "The financial planning industry is rife with self-interest and so loosely regulated that you've got a lot of clowns and con artists calling themselves planners and hoodwinking the public into thinking that means something," he says. "And business is down at the brokerage houses since the crash -- so, to keep their BMWs in the garage, we're seeing a lot more brokers mugging people, especially the elderly, through overtrading in high-commission products and similar abuses." One such victim was Hedvig Peterson, a retired schoolteacher from Phoenix. Though she is 100 years old and has poor vision, she got suspicious of her broker when she received a margin call without ever having authorized any margin trading. She turned to a group of younger, better-sighted friends -- some still in their seventies -- and they discovered what they thought were numerous unauthorized and unsuitable trades in her statements. Peterson and her friends wrote to the brokerage office, which referred the complaint to its parent company's compliance division -- the body that is supposed to investigate complaints. A compliance officer for Shearson Lehman Hutton wrote back that "there is no basis to your claims." But an arbitration panel of the National Association of Securities Dealers disagreed and in September awarded her $1 million in punitive damages plus $249,254 in * compensatory damages. Shearson then tried some belated image control by offering to pay 80% of the total award immediately -- thus avoiding any legal delay -- if Peterson and her attorney would keep their mouths shut. But Peterson, who plans to give the money to charity, refused. "I think it's important for people to know about cases like this," she told MONEY, "so they can prevent the same thing from happening to them." Yet while such stories make lurid reading, simple laziness or incompetence on the part of financial advisers is probably much more common these days and may account for even greater monetary losses. "You can get hurt by someone who is well meaning but not very good just as much as you can by someone who sets out to cheat you," says James Cloonan, president of the American Association of Individual Investors. Steven and Surinder Mackey learned that the hard way when they went house hunting in the San Francisco Bay Area two years ago. The Mackeys found a home they liked and made an offer. But their real estate agent did not get the contract to the sellers fast enough, they say, and the sellers received a better offer that they took instead. Wisely, the Mackeys switched agents immediately and this time got one who was more conscientious. When they asked her to bid on a house they liked, the broker drove to the property and made the offer in person. And when the sellers said they wanted to talk to their own agent before accepting, the Mackeys' broker waited outside in the car for five hours until she could clinch the deal that day. A form of abuse even more difficult to detect happens when a reasonably competent adviser leads you into investments that are profitable for him but not quite right for you. "If you have $50,000 that you want to invest very conservatively and the broker puts you into Treasury bills, he'll get $50 in commission. But if he puts you into a bond fund with an 8% load, he'll earn $4,000," says Mary Calhoun, a former Merrill Lynch broker who wrote and published her own book on this subject titled The Guide to Investor Protection (P.O. Box 99, Newton, Mass. 02162; $11.95). "Even though T-bills are likely the better choice for you, the temptation to put their interest ahead of yours is too great for most brokers or planners to resist, no matter how well intentioned they may be." Commissions are not the only temptations. "At trade shows for brokers and planners," adds

Calhoun, "the floors are filled with displays of Rolex watches, Corvettes or Porsches and all kinds of trips that these so-called objective advisers can win if they just meet certain goals for selling a specific mutual fund or the latest life insurance package to their clients." Sometimes the fact that your broker, insurance agent or planner wins such a trip can be a sign that something is wrong. That's what one midwestern couple says ruefully of the investment pro they started working with in 1984. "He told us any broker who didn't make at least $50,000 a year shouldn't be in the business," recalls the wife (the couple agreed to discuss the case only if all names were omitted). "He mentioned that he'd won trips to Switzerland, Hawaii and Mexico from some of these fund and limited-partnership companies he put us into. But we thought those were all signs that he was very knowledgeable and successful." They changed their minds when they realized belatedly that most of their $400,000 in retirement savings had dwindled away, while the agent had collected some $80,000 in commissions on the transactions. In such cases, common sense is often your best defense. That's what recently led Evie and John Shively of Bothell, Wash. to change insurance agents. Their former agent, like John, was an avid sports fan. But Evie remembers being frustrated that he spent more time talking about athletics than about insurance at their meetings. "Every time I would ask him a nitty-gritty question about the policies he recommended, he would start talking about the Seahawks," she says. "Then if I'd press the point, he'd say we should have this or that policy because he said it was best." The couple finally dumped that agent and found a new one, who immediately set out to teach them some fundamentals of life insurance. The Shivelys then picked a reasonably priced term life insurance policy, doubling their coverage and still saving about $200 over the more expensive mortgage, whole life and universal life insurance that the original agent had pushed. The first step in getting help, of course, is to go to the right kind of professional for the advice you want. Though this sounds painfully simple, it's amazing how often people go wrong by ignoring it -- taking a hot stock tip from their accountant or, conversely, trying a risky tax dodge suggested by their broker. If you don't know what kind of expertise you need, start with the general practitioner of the field -- a financial planner, preferably one whose income is derived entirely from fees, not commissions. He can review your situation objectively and help you choose which specialists, if any, you need to consult. Here are some search guidelines that apply to all types of financial professionals: 1. Collect a list of possible candidates. Your best leads will probably come from friends, relatives and business acquaintances. "Getting referrals is no guarantee that someone is good," says Cloonan of the AAII. "But at least you can be pretty sure that the adviser hasn't cheated whoever is recommending him." Round out that list by asking local professional groups, such as the board of realtors or a chapter of the American Institute of Certified Public Accountants, for names of members in your area. Beware of so-called cold calls from boiler-room brokers. "Before you even listen to anyone's spiel over the phone, ask where he or she is calling from," says Sharon Kalin, president of Athene-Coronado Management, a New York City money-management firm. "If the answer is out of state, hang up. Never do business with someone you can't have eye contact with." 2. Meet with at least three people from your list. Most reputable advisers offer a free initial consultation of 30 minutes or more. A good real estate broker, for instance, will talk to you at his office first rather than just meeting you at the house you inquire about. At this opening meeting, let the adviser take the lead. "Anyone who is competent will start by asking you about your needs and goals," says Ben Branch, a professor of finance at the University of Massachusetts at Amherst. "And he or she will be a good listener, rather than just quickly sizing up how much money you have and then trying to sell you something." 3. Ask each candidate for references. Try to get the names and phone numbers of

three clients like you with whom he has worked for two to three years. Sure, the adviser won't steer you to dissatisfied customers. But the very fact that he maintains relationships with people is a positive sign. Call the clients and ask them how the adviser has handled their business, how quickly they can reach him when they need to, and how much he charges. Ask them also to cite at least one aspect of his service that has not been up to snuff. This may give you an indication of his weaknesses. 4. Pay attention to his titles -- but not too much attention. The accompanying boxes indicate the degrees, credentials and memberships you should look for. Some titles mean more than others, however. Becoming a certified public accountant, for example, requires much more training and testing than becoming a certified financial planner. True, a C.F.P. must take 60 hours of continuing education every two years. But he can collect 12 hours of credit just by passing a study-by-mail program called "How to Sell Limited Partnerships" -- a class of investment that is often risky and that some pros think should be avoided entirely. The trade literature in the field is likewise not always edifying or encouraging; ads in Financial Planning magazine, for instance, tend to highlight commissions and bonuses as prominently as benefits for the customer.

Similarly, registration with the Securities and Exchange Commission -- required of investment advisers -- does not ensure probity. "People can and do lie on their SEC applications, and there are no education or competency requirements," says Barbara Roper, financial planning specialist at the Consumer Federation of America. "So keep in mind that all it really means for sure is that they've paid their $150 fee to register. No credential guarantees trustworthiness." 5. Check your adviser's background. Once you've narrowed your choice to a single candidate, consult regulatory authorities to see whether he's had any trouble in the past (for how to do this, see the boxes).

For instance, a recent check of Houston planner Venita Van Caspel's record with the Texas Securities Board showed numerous lawsuits filed against her since 1985. The NASD added that it had censured and fined her four times since 1972.

Mary Calhoun goes so far as to suggest a spot check of a prospect's resume. "If someone claims to have graduated from Oberlin, call the college to see if that's so," she urges. "People don't want to spend $1.50 on a long-distance call but will risk thousands with someone whose dishonesty may reveal itself through a lie like that." A routine call from a Florida retiree, for example, revealed that Boston money manager Mark Spangler had never attended Harvard or Wharton, as he had claimed. That led to a 1986 SEC investigation that concluded he had mishandled clients' funds. Spangler was barred from the securities industry. 6. Don't trust a person just because he's a friend or relative. Singer/ songwriter Billy Joel probably would second that. He hired ex-brother-in- law Frank Weber as his personal manager nine years ago. "Weber sided with Joel in his divorce from Weber's sister and had demonstrated such great personal loyalty that Joel trusted him completely," explains Leonard Marks, the singer's New York City attorney. But after an outside auditor went through the books last summer, Joel filed a $90 million lawsuit in September claiming that Weber stole $2.5 million in "supposed loans" and lost $10 million in bad investments. Weber himself could not be reached for comment but his lawyer said he has filed an $11 million countersuit charging breach of contract. Joel made his feelings clear when, just a week before the legal fur started flying, he was on the radio ironically dedicating one of his hits to Weber. The title: A Matter of Trust. 7. Ask how, and how much, the adviser will be

compensated. Your goal here is not just to find out what he will cost you but to turn up any potential conflicts of interest. The commission on whole life insurance, for example, is 100% of the first year's payment; on options, it's typically 20% to 30%; on a limited partnership, 8% to 10%. And, given the human capacity for self- deception, your adviser may not even be aware that he is giving you a bum steer. "Someone who's always been aboveboard may still, under pressure, find ways to justify doing things that are in his or her self-interest, not yours," says the AAII's Cloonan, "just as the encyclopedia salesman can rationalize selling to a family that can't afford it by saying to himself that knowledge is more important than food in the long run." When you deal with a commissioned salesman, ask him what he would earn on everything he recommends. If he balks at that, cross him off your list. 8. Finally, since no one cares as much about your money as you, always keep at least one eye on your affairs. Even with an honest adviser, this is important in order to prevent misunderstandings. And it's clearly the best protection against fraud. "In case after case," says Roper of the Consumer Federation, "the people who get ripped off are those who come to an adviser saying they don't know anything about investing or insurance and then put the whole responsibility in the adviser's hands." Donald Saxon, director of the Florida Division of Securities and Investor Protection, offers the following tips: Get your pro's advice in writing, if possible. Then send him a confirming letter -- with a return receipt requested -- summarizing your goals and the plan the two of you have formulated to attain them. After that, read all financial statements to check that transactions are proceeding properly. Discuss anything that is confusing or that you don't remember authorizing. Don't sign what you don't understand. And, when investing, don't open a margin account (one that trades on borrowed funds) or a discretionary account (one in which your adviser can make decisions without you). A smart customer uses his advisers as personal tutors to broaden his own understanding of their fields. "Only by educating yourself," says Roper, "can you judge whether the advice you're getting is good." Finally, here are five serious danger signs that indicate you are very likely working with the wrong person. Start looking for a new pro immediately if your adviser: -- Does not spend enough time with you (he returns your calls from a car phone as he's driving home, for example). -- Can't or won't give clear explanations. When he says, "It works, but it's too complex to explain," what he really means is that he either doesn't understand it himself or doesn't want you to understand it for fear you'll say no. -- Says he has a surefire system for above-average returns. "Anyone who claims he has a system usually does, but it is designed to produce commissions, not profits," observes Diane Nygaard, a Kansas City securities attorney. -- Brags about his income or displays his own wealth ostentatiously. -- Tells you that you will miss the boat if you don't sign right now. "The only boat you'll miss in that situation," says NASD press officer Robert Ferri succinctly, "is the Titanic."